



Project
Complaint
Mechanism

COMPLAINT: LUKOIL SHAH DENIZ STAGE II

REQUEST NUMBER: 2018/04

ELIGIBILITY ASSESSMENT REPORT FOR A PROBLEM-SOLVING INITIATIVE – July 2018

The Project Complaint Mechanism (PCM) is the independent accountability mechanism of the EBRD. PCM provides an opportunity for an independent review of Complaints from one or more individual(s) or organisation(s) concerning an EBRD Project which allegedly has caused, or is likely to cause, harm. PCM may address Complaints through two functions: Compliance Review, which seeks to determine whether or not the EBRD has complied with its Environmental and Social Policy and/or the Project-specific provisions of the Public Information Policy; and Problem-solving, which has the objective of restoring a dialogue between the Complainant and the Client to resolve the issue(s) underlying a Complaint without attributing blame or fault. Affected parties can request one or both of these functions.

For more information about PCM, contact us or visit www.ebrd.com.

Contact information

Inquiries should be addressed to:

The Project Complaint Mechanism (PCM)
European Bank for Reconstruction and Development
One Exchange Square
London EC2A 2JN
Telephone: +44 (0)20 7338 6000
Fax: +44 (0)20 7338 7633
Email: pcm@ebrd.com

<http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism.html>

How to submit a Complaint to the PCM

Complaints about the environmental and social performance of the EBRD can be submitted by email, telephone or in writing at the above address, or via the online form at:

<http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism/submit-a-complaint.html>

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Unless otherwise indicated, capitalised terms used in this report are those set out in the Definitions and Abbreviations incorporated within the PCM Rules of Procedure 2014.

EXECUTIVE SUMMARY

The Project Complaint Mechanism (PCM) received a Complaint in relation to the EBRD's financing of the Lukoil Shah Deniz Stage II Project in Azerbaijan (the Project). The Complaint was submitted by a community member in the Sangachal settlement who requested that their identity be kept confidential.

The Complaint alleged non-compliance with the Bank's 2008 Environmental and Social Policy (ESP) and requested that a Problem-solving Initiative be undertaken by the PCM. In particular, the Complaint raised concerns around lack of adequate consultation with local communities, lack of access to information and redress for local communities, lack of compensation for local residents' property damage arising from project-related accidents (gas pipeline explosion), lack of necessary soil, air and water quality monitoring, inability to grow fruits and vegetables in the impacted villages due to potential contamination of the soil, and lack of adequate sewage systems, roads and job opportunities at the Shah Deniz expansion project.

Due to the unwillingness of the Client to engage in a PCM-facilitated dialogue aimed at helping the Client and community improve communication, reach a common understanding of the issues and perspectives, and identify strategies for working together more effectively to address the social and environmental concerns, together with EBRD Bank Management's lack of support for a PCM problem-solving process, the PCM Eligibility Assessors find that the Complaint does not satisfy the eligibility criteria for a Problem-solving Initiative as set out in the PCM Rules of Procedure.

I. BACKGROUND

1. On 25 January 2018 the PCM received a Complaint regarding the Lukoil Shah Deniz Stage II Project in Azerbaijan.¹ The Complaint was submitted by a community member from the Sangachal settlement who requested that their identity be kept confidential due to fear of retaliation and related concerns that their security may be compromised. The Complainant requested that the PCM undertakes a Problem-solving Initiative. The Complaint was registered by the PCM Officer on 15 March 2018 in accordance with paragraphs 11-13 of the PCM Rules of Procedure (PCM RPs), and was subsequently posted in the PCM Register pursuant to paragraph 20 of the PCM RPs. On 29 March 2018 Ms Susan Wildau was appointed as an Eligibility Assessor to conduct the Eligibility Assessment jointly with the PCM Officer, in accordance with paragraph 22 of the PCM RPs.

2. In summary, the Complainant have raised the following concerns in relation to the Project:

*Lack of adequate consultation with local communities, lack of access to information and redress for local communities, lack of compensation for local residents' property damage arising from project-related accidents (gas pipeline explosion), lack of necessary soil, air and water quality monitoring, inability to grow fruits and vegetables in the impacted villages due to potential contamination of the soil, lack of adequate sewage systems, roads and job opportunities at the Shah Deniz expansion project.*²

3. A separate Complaint was submitted by two civil society organizations: Crude Accountability, a US based NGO and the Public Association for Assistance to Free Economy from Azerbaijan in September 2017 in relation to the Lukoil Shah Deniz Stage II Project. Complainant raised similar concerns and requested a Compliance Review be undertaken. The PCM found the Complaint eligible for Compliance Review in November 2017. The Compliance Review is currently underway.
4. The Project is an A/B loan to LUKOIL to provide financing for its share in Stage 2 development of the Shah Deniz, an offshore gas exploration and production Project in Azerbaijan. LUKOIL has a 10% interest in the Shah Deniz field. The Project is managed by BP plc.
5. The Project includes two additional bridge-linked offshore gas platforms, 26 subsea wells, 500km of subsea pipelines, and the expansion of the gas plant at Sangachal Terminal and the South Caucasus Gas Pipeline expansion.
6. The Project was approved by the EBRD Board of Directors on 22 July 2015, as a category A Project under the 2008 Environmental and Social Policy. The total loan amount is expected to be up to USD 1 billion, with both Mandated Lead Arrangers (EBRD and ADB) arranging USD 500 million each. Approximately a half of the total loan amount is expected to be syndicated under the A/B Loan programmes of both the EBRD and the ADB.³

¹ Complaint Number 2018/04, available at <http://www.ebrd.com/work-with-us/project-finance/project-complaint-mechanism/pcm-register.html> and annexed to this report.

² *Ibid*

³ Project Summary Document for Lukoil Shah Deniz Stage II Project, available at <http://www.ebrd.com/work-with-us/projects/psd/lukoil-shah-deniz-stage-ii.html>. The Client is LUKOIL Overseas Shah Deniz Ltd, which is an SPV beneficially owned by LUKOIL Overseas Holding GmbH, a subsidiary of OAO LUKOIL in charge of the development of the Group's non-Russian exploration and production activities.

II. STEPS TAKEN IN THE ELIGIBILITY ASSESSMENT

7. The Eligibility Assessors have undertaken a general examination of the Complaint, and additional information provided by the Complainant, EBRD Management and the Client, to determine if the eligibility criteria set out in the PCM RPs are satisfied.
8. A meeting was held with a representative of the Complainant to learn more about the social and environmental concerns raised in the Complaint. The PCM also held meetings with EBRD Management to clarify information about the Project, and to explain their perspectives on how PCM-facilitated mediation could potentially assist the local communities and the Client address issues of concern.
9. Further, the PCM made several efforts to engage with the Client directly in order to provide detailed information about PCM-facilitated problem-solving and to assist them in making an informed choice about pursuing this approach, although the Client did not avail itself of this opportunity.
10. In light of the information and perspectives shared by the Complainant's representative, EBRD Management and the Client, a site visit was not considered necessary to reach a decision on eligibility.

III. SUMMARY OF THE RELEVANT PARTIES' VIEWS

1. Complainant

11. The alleged harm caused by the EBRD Project is described in the Complaint as follows:

- *Lack of adequate consultation with local communities;*
- *Lack of access to information and redress for local communities;*
- *Lack of compensation for local residents' property damage arising from project-related accidents (gas pipeline explosion);*
- *Lack of necessary soil, air and water quality monitoring; and*
- *Inability to grow fruits and vegetables in the impacted villages due to contamination of the soil.*
- *Lack of adequate sewage systems, roads and job opportunities at the Shah Deniz expansion project.*

2. Bank Management

12. Bank Management submitted its written response⁴ to the PCM in relation to the Complaint on 19 April 2018.
13. According to the Bank's response, the Project has been structured to comply with the requirements of the 2008 Environmental and Social Policy applicable to an EBRD category A Project and relevant EBRD Performance Requirements.
14. Bank Management asserts that the Environmental and Social Impact Assessment was prepared for BP plc and is available on their website. Further, Bank Management states that an Environmental and Social Due Diligence was undertaken by an independent consultant, which included a detailed review of the ESIA relative to the 2008 Environmental and Social Policy. The main gap identified was the lack of Environmental and Social Management Plans

⁴ Bank Management response dated 19 April 2018, annexed to this report.

available in the public domain, for which derogation was requested and granted by the EBRD Board of Directors, and disclosed in the Project Summary Document.

15. Management highlights that the final report of the independent consultant for the Project is available on the EBRD website and that the Project is closely monitored.

16. In response to the Complaint, EBRD Management states that:

- The Project was completed in compliance with the 2008 Environmental and Social Policy, and the Public Information Policy.
- Management believes that the necessary steps were taken to ensure that local communities were consulted as part of the disclosure and consultation process completed for the Project, as demonstrated in the BP Environmental and Social Impact Assessment.
- In terms of “compensation for local residents’ property damage arising from project-related accidents (gas pipeline explosion)”, Management notes the ESIA describes compensation for impacts caused by the project, and that those documents confirm that compensation has been adequate on the Project. Management adds that they have no information about an explosion on the Sangachal Terminal and that the explosion the Complainant is referring to might be an accident that was not associated with the Project.
- Management expresses their confidence that there is no lack of information on environmental monitoring, nor is there any evidence that onsite operations have had an adverse impact on local soil or water quality.
- Based on the information presented, Management believes that the Shah Deniz Project has completed comprehensive ESIA’s and conducted meaningful consultation through the life of the Project. Thus, Management does not support the request for a Problem-solving Initiative led by the PCM.⁵

3. Client

17. LUKOIL Overseas Shah Deniz Ltd is an SPV beneficially owned by LUKOIL Overseas Holding GmbH, a subsidiary of OAO LUKOIL in charge of the development of the Group’s non-Russian exploration and production activities. The Project is managed by BP plc. The EBRD and the ADB were appointed by LUKOIL as the Mandated Lead Arrangers for the proposed transaction.⁶

18. While the Client did not provide a formal response, they sent a communication to the PCM in relation to the Complaint on 8 June 2018.

19. In this communication, the Client did not endorse problem-solving under the auspices of the PCM, citing the multiple ways for stakeholders to communicate with the project operator or/members of the Shah Deniz consortium, including LUKOIL, directly. They further highlight that “any reasonable complaints or grievances are solved in a timely and cooperative manner, with no unsolved issues remained”.

⁵ *Ibid*

⁶ Project summary document available at: <https://www.ebrd.com/work-with-us/projects/psd/lukoil-shah-deniz-stage-ii.html>

20. The Client states that they believe they have in place robust and effective environmental and social management systems compliant with EBRD standards that are used to minimize and mitigate Project impacts identified in the ESIA.
21. The Client adds that the Project is regularly monitored by third party consultants engaged by the lenders and environmental reports are being publicly disclosed.⁷

IV. DETERMINATION OF ELIGIBILITY FOR A PROBLEM-SOLVING INITIATIVE

22. The Eligibility Assessors have examined the Complaint to determine whether the relevant eligibility criteria are met under paragraphs 24-28 of the PCM RPs, and considered the response of EBRD Management to the Complaint in accordance with paragraph 29 of the PCM RPs.
23. Pursuant to paragraph 24 of the PCM RPs, the Eligibility Assessors do not judge the merits of the allegations in the Complaint and do not make a judgement regarding the truthfulness or correctness of the Complaint in making their determination on eligibility.
24. The Eligibility Assessors have determined that the criteria outlined in paragraph 25 of the PCM RPs have been met:
- The Complainant has indicated a desire for the PCM to undertake a Problem-solving Initiative.
 - The Complainant has indicated the outcomes they seek as a result of use of the PCM process:

[...] [I]t is our hope that Lukoil and British Petroleum inform us of all the impacts that are supposed to arise from the project, and address our concerns, and grievances. We would like for the Company to conduct regular air and water testing in our villages. If contamination is evident, to correct it in our villages and to compensate accordingly. Further, we hope to see benefits from this project coming to the impacted communities, including providing training and jobs, roads and upgrades of the sewage system (currently open sewage) and conditions of the schools.⁸

- The Complainant has referred to previous efforts to engage with the EBRD. Further, it is stated that local affected communities have not had access to the Client for redress.
- The Complainant has indicated details of a Relevant EBRD Policy:

EBRD 2008 Environmental and Social Policy - Performance Requirements 1, 2, 3, 4, 6 and 10 and the EBRD Public Information Policy.⁹

25. Pursuant to paragraph 28 of the PCM RPs, the Eligibility Assessors do not consider that the Complaint was filed fraudulently or for a frivolous or malicious purpose, or that its primary purpose is to seek competitive advantage through the disclosure of information or through delaying the Project. The Eligibility Assessors have also found that the issues raised in the Complaint do not trigger third party obligations.

⁷ Client communication to the PCM, dated 8 June 2018.

⁸ Complaint.

⁹ *Ibid.*

26. According to paragraph 24 (a) i) of the PCM RPs, to be held eligible for a Problem-solving Initiative, the Complaint must be filed by an individual or individuals located in an impacted area, or who has or have an economic interest including social and cultural interests, in an impacted area. The Eligibility Assessors consider this requirement to be satisfied.
27. The PCM Problem-solving function has the objective of restoring a dialogue between a Complainant and a Client to resolve the issues underlying a Complaint without attributing blame or fault. In the present case, the Eligibility Assessors have considered whether the PCM's involvement may assist in resolving the present dispute, or is likely to have a positive result taking into account previous or ongoing efforts to resolve the issues of concern.
28. To be found eligible for a Problem-solving Initiative, each party should indicate their willingness to engage in a dialogue process facilitated by the PCM. To date, the Client has not indicated a willingness to engage in a Problem-solving Initiative to discuss the matters outlined in the Complaint with the Complainant. The Eligibility Assessors also take note that in the context of this complaint, EBRD Management does not support a PCM-facilitated dialogue aimed at helping the Client and community improve communication, reach a common understanding of the issues and perspectives, and identify strategies for working together more effectively to address the social and environmental concerns.
29. The Eligibility Assessors take note that, frequently, the parties involved in a complaint hold conflicting views of the issues, whereby one side maintains there are no problems and that plenty of avenues for dialogue exist; while the other perceives that access to dialogue is a concern, in addition to other issues. A Problem-solving Initiative can be particularly helpful in such cases, and numerous examples of successful Initiatives can be found across accountability mechanisms of such cases.
30. Further, a Problem-solving Initiative is not concerned with the adequacy of an ESIA or whether the monitoring regime is in line with Bank policies, as these are matters to be determined through a Compliance Review. Accordingly, a Problem-solving Initiative can be valuable for both sides regardless of whether Bank policies have been followed, or not. Nor does the mere act of agreeing to consider engaging in a PCM facilitated dialogue process, imply in any way that the Client has not adequately provided sufficient forums for community engagement or effectively addressed impacts in the past. Sometimes simply sitting down together with an impartial third party facilitating talks that involve information exchange so everyone is on the same page can be enough to get things back on track. It is regrettable and indeed puzzling to PCM as to why neither EBRD Bank Management nor the Client seem to recognize the potential opportunities a Problem-solving Initiative could offer all parties; or at a minimum was willing to explore the possibility of a dialogue without making a full commitment until a more in-depth assessment could be carried out by PCM through a site visit, to further clarify the issues and gauge the likelihood of success.

V. CONCLUSION

31. On the basis of the information set out above, the Eligibility Assessors have found that the Complaint does not meet the eligibility criteria set out in the PCM RPs for a Problem-solving Initiative.

ANNEXES

Annex 1: Complaint

Annex 2: Bank Management Response

Annex 1: Complaint

Step 1: Details of the Complaint

<p>1. Name of the Person(s) or Organisation(s) filing the Complaint ("the Complainant").</p> <p>.....</p>
<p>2. Contact information of the Complainant (Please include address and, if possible, phone number and email address).</p> <p>.....</p>
<p>3. Is there a representative making this Complaint on behalf of the Complainant?</p> <p>Yes <input checked="" type="checkbox"/> (if yes, please provide the Name and Contact information of the Representative):</p> <p>.....</p> <p><i>Please attach proof that the Representative has been authorised by the Complainant to file the Complaint. For example, this can be in the form of a letter signed by the Complainant giving permission to the Representative to make the Complaint on his behalf.</i></p>
<p>Is proof of authorisation included with the Complaint?</p> <p>Yes <input checked="" type="checkbox"/></p>
<p>4. Are you requesting that this Complaint be kept confidential?</p> <p>Yes <input checked="" type="checkbox"/> (if yes, please explain why you are requesting confidentiality)</p> <p>Given the highly repressive political situation in Azerbaijan, the security of the Complainant may be compromised. We ask PCM and EBRD to exercise utmost confidentiality, care and sensitivity when dealing with this complaint.</p>
<p>5. Please provide the name or a description of the EBRD Project at issue.</p> <p>Lukoil Shah Deniz Stage II</p> <p>Project number: 46766</p>
<p>6. Please describe the harm that has been caused or might be caused by the Project (please continue on a separate sheet if needed):</p> <p>Lack of adequate consultation with local communities, lack of access to information and redress for local communities, lack of compensation for local residents' property damage arising from project-related accidents (gas pipeline explosion), lack of necessary soil, air and water quality monitoring, inability to grow fruits and vegetables in the impacted villages due to potential</p>

contamination of the soil, lack of adequate sewage systems, roads and job opportunities at the Shah Deniz expansion project.

Step 2: Problem-solving Initiative

7. If you are requesting the PCM's help through a **Problem-solving Initiative**, you must have made a genuine effort to contact the EBRD or Project Sponsor (Client) regarding the issues in this complaint.

a. Have you **contacted the EBRD** to try to resolve the harm caused or expected to be caused by the Project?

Yes *(If yes, please list when the contact was made, how and with whom):*

██████████ has been involved in good faith engagement with EBRD staff, documentation of which can be found in Annex A.

Please also describe any response you may have received.

See Annex A

No *(please go to question 8)*

Please provide a record of this contact with the EBRD, as instructed at the end of this form.

b. Have you **contacted the Project Sponsor** (Client) to try to resolve the harm caused or expected to be caused by the Project?

Yes *(if yes, please list when the contact was made, how and with whom)*

Please also describe any response you may have received.

No *(please go to question 8)*

Please provide a record of this contact with the Project Sponsor (Client), as instructed at the end of this form.

8. If you have not contacted the EBRD and/or Project Sponsor (Client) to try to resolve the harm or expected harm, please explain why.

We have been in contact with the EBRD staff. Local affected communities have not had access to client for redress.

The Complainant does not have access to the staff at the Project Sponsor that would be able to influence the resolution of the grievance.

Step 3: Additional information

Although not required, it would be helpful to the PCM if you could also include the following information:

9. If you believe the EBRD may have failed to comply with its own policies, please describe which EBRD policies.

EBRD Social and Environmental Policy, EBRD Public Information Policy, EBRD Performance Requirements 1, 2, 3, 4, 6, 10.....

10. Please describe any other complaints you may have made to try to address the issue(s) at question (for example, court cases or complaints to other bodies).

We did not make any complaint to other bodies. We did not know where to go and ask for help or talk about our problems.

11. Are you seeking a Compliance Review where the PCM would determine whether the EBRD has failed to comply with a Relevant EBRD Policy in respect of an approved Project?

No X

12. Are you seeking a Problem-solving Initiative which has the objective of restoring a dialogue between you and the Project Sponsor (Client) to resolve the issue(s) underlying your Complaint without attributing blame or fault?

Yes X

13. What results do you hope to achieve by submitting this Complaint to the PCM?

It is our hope that Lukoil and British Petroleum inform us of all the impacts that are supposed to arise from the project, and address our concerns, and grievances. We would like for the Company to conduct regular air and water testing in our villages. If contamination is evident, to correct it in our villages and to compensate accordingly. Further, we hope to see benefits from this project coming to the impacted communities, including providing training and jobs, roads and upgrades of the sewage system (currently open sewage) and conditions of the schools.

Date: 25.01.2018

Annex 2: Bank Management Response

1. Introduction

The project involves financing to Lukoil Overseas Shah Deniz (LOSD) for their participation in the Stage 2 development of Shah Deniz, an offshore gas production project in Azerbaijan. Lukoil has a 10% interest in the Shah Deniz field and the project is managed by BP plc.

The Project was approved by the EBRD Board of Directors on 22 July 2015 and is subject to the 2008 Environmental and Social Policy.

The complaint requests a Problem Solving Initiative, and is based on the following:

Lack of adequate consultation with local communities, lack of access to information and redress for local communities, lack of compensation for local residents' property damage arising from project-related accidents (gas pipeline explosion), lack of necessary soil, air and water quality monitoring, inability to grow fruits and vegetables in the impacted villages due to potential contamination of the soil, lack of adequate sewage systems, roads and job opportunities at the Shah Deniz expansion project

2. Management Response

The Project has been structured to comply with the requirements of the 2008 Environmental and Social Policy applicable to an EBRD category A project and relevant EBRD Performance Requirements ("PRs"). The ESIA for the project was prepared for BP plc and is available on their web site. An Environmental and Social Due Diligence (ESDD) was undertaken by an independent consultant. The ESDD included a detailed review of the ESIA relative to the EBRD 2008 ES Policy and associated PRs. The main gap identified related to the lack of Environmental and Social Management Plans in the public domain. As part of the Bank's work with LOSD and BP, we leveraged disclosure of the Fishermen's Livelihood Restoration Program (FLRP); however the other management plans were not disclosed at that time (although recently they have been released). Based on this lack of disclosure, a derogation was requested and granted by the EBRD's Board of Directors and disclosed in the Project Summary Document (PSD). The final report of the independent consultant for this project is available on the EBRD web site, along with the results of post-Board approval monitoring. The Bank has been closely monitoring the Project with this independent consultant.

The Bank has been involved on the BP group of oil and gas projects in Azerbaijan for over 15-years, dating back to "Early Oil" and the "ACG", "BTC", Shah Deniz and Southern Caucasus Pipeline projects. All of these projects (either as a direct project component or as an Associated Facility) utilise the Sangachal terminal, which appears to be the source of this PCM request. Through this extensive experience on these projects, management has witnessed and verified meaningful consultation with communities, that includes numerous and regular community meetings, the use of local information centres in the local communities and the use of Community Liaison Officers (CLO) in the local communities. These aspects are outlined in the various ESIA documents for the projects which are available at the following:

For ACG

https://www.bp.com/en_az/caspian/sustainability/environment/env-and-social-documentation/ACG-ESIA.html

For SD stage 1 and 2

https://www.bp.com/en_az/caspian/sustainability/environment/env-and-social-documentation/ShahdenizESIAs.html

For BTC

https://www.bp.com/en_az/caspian/sustainability/environment/env-and-social-documentation/BTCESIAs.html

and for SCP

https://www.bp.com/en_az/caspian/sustainability/environment/env-and-social-documentation/SCP.html

Further, management would like to state that the adequacy of the Shah Deniz Stage 2 consultation and availability of information was discussed in the report completed in support of our recent investment in the SD 2 project, which is available on our web site here

<http://www.ebrd.com/work-with-us/projects/esia/lukoil-shah-deniz-stage-ii.html>

Management have prepared responses to the various elements of the complaint below.

In regards to “**adequate consultation with local communities, lack of access to information and redress for local communities**” management note that the Independent Environmental and Social Consultant (IESC) report includes the following statements:

The ESIA somewhat documents the stakeholder engagement and consultation processes undertaken from scoping up to ESIA disclosure. Analysis of stakeholders was reported to have been undertaken prior to scoping, and disclosure of ESIA documents was carried out in line with documented Project disclosure processes. Ongoing engagement and participation at the local community level is referenced ESIA and the Stakeholder Engagement Plan and evidence and outcomes of engagement were reviewed from the Project Engagement Register. (page 35)

The social impact management planning for the Project relies on both SD2 construction/contractor management planning and BP’s Regional Community and External Affairs team who implement on-going consultation with potentially affected communities in the vicinity of the Sangachal Terminal. The BP Regional consultation processes with potentially affected communities include scheduled and planned community meetings and informal communications through a network of community liaison officers who are located within these communities. The IESC reviewed records of engagement with communities surrounding the Sangachal terminal dating back to 2010 that demonstrate regular and meaningful engagement with these communities. The community engagement records include meetings held jointly by BP and the main construction contractor for SD2, TKAZ; whereby issues of local employment, training, public safety and the grievance process were discussed with potentially impacted communities. Records of engagement with communities surrounding the terminal also included presentation of findings of ESIA reports for SD2, early infrastructure works and a Health Impact Assessment. (page 35)

Environmental and Social Management Plans (including the SEP) were not specifically included in the disclosure package described in the PCDP and have not been disclosed with the ESIA which is a requirement of Lender performance standards. Although there is sufficient evidence to suggest that the ongoing community engagement processes in place for the SD Project include a structured and systematic engagement process with local communities that communicates potential impacts and how the Project proposed to manage and mitigate these

impacts. Furthermore, the Operator has communicated and presented the results of various studies and monitoring data regarding dust, noise and health impacts to the communities surrounding the terminal. The intent of Lender standards in regards to the disclosure of environmental and social management plans can therefore be partially demonstrated through the record of engagement with affected communities in regard to these management and mitigation measures. However, the IESC recommends that full disclosure of the documented management plans for the SD2 Project would ensure full compliance with Lender standards, policies and Good international Industry Practice. (Page 36)

Final consultation occurred with draft ESIA release, with 60 days of public disclosure at various sites in Baku, at the site, and in Sangachal and Umid villages. Additionally, consultation meetings targeted the scientific community in Baku, and the general public at consultation meetings in Baku and two villages near the ST.

The Operator indicated they may complete a close out survey/report back to affected communities following the SSES.

Outside of the ESIA-specific engagement meetings, records of consultation meetings were reviewed from the SD2 Project Engagement Log from December 2010 through to March 2015 in the communities of Umid, Sangachal Village and Azim Kend. These include:

Planned meetings with local Sangachal communities, SD2 Project Operator and the main construction contractor (TKAZ) to discuss issues including public safety during construction, grievance procedures and local employment;

Meetings held with local communities in the vicinity of the Sangachal Terminal to present and discuss the outcomes of a health impact assessment study;

Results of air quality and noise monitoring data undertaken within and surrounding these communities; and

Provision of updates on operational matters, including planned construction and changes to facilities. (page 37)

The ESIA (Table 14.1) refers to the Community Engagement and Nuisance Management Plan as the mechanism through which community grievances will be received and managed. A grievance mechanism is in place for the Operator; the grievance log was verified by the IESC, but it is noted that the procedure was not sighted. Further, monitoring data is shared with communities through Community Liaison Officers in particular when there are grievances relating to those issues. Additionally, with respect to ongoing stakeholder engagement processes, the IESC notes that the Sangachal Terminal construction contractor TKAZ also has a stakeholder engagement and grievance process, which operates independent of the BP process. There are two interface meetings annually providing updates on the Project, noise and other monitoring and employment updates. The four nearby villages have their own meetings with TKAZ, the contractor undertakes self-verification of their stakeholder engagement and grievance process, with BP oversight and annual audit (planned for 2015). Documentation on this was not sighted by the IESC.

Documentation on implementation and resolution of grievances was reviewed in discussions with the SD2 operational personnel and BP's regional Community and External Affairs (C&EA) team. The Operator advised that the Community Complaints Log captures records of formal complaints received through various channels including a dedicated phone number that is communicated widely and through the structured engagement processes in place at a Regional operations level and SD2 Project specific. The Community Liaison Officers advised that many informal issues are raised and dealt with verbally without being recorded in the complaints log. The complaints that are recorded date back to 2011 and relate to local employment issues, concerns regarding health impacts, and more recently complaints received from local residents who have lodged formal grievances regarding the FLMP process. Specifically these grievances have occurred in June 2015 following the compensation paid by the SD2 Project to fishermen whose livelihoods have been temporarily impacted by the nearshore and onshore pipeline construction works in Sangachal Bay. These grievances are all claims that the FLMP failed to

identify their eligibility for compensation. The FLMP grievance process has been formally triggered by these claims and is being addressed in accordance with the structured process identified in the Plan. (Pages 38 and 39)

Inter-Agency Security Committee meetings have been in place since 2006 (involving community liaison officers, local government and municipal authorities and public security officials), as a forum for exchange between local communities and private security. (page 74)

A Community Liaison Plan is defined within the ESIA that includes community relations training, establishment and maintenance of good community relations, and a grievance procedure. In addition there is a Public Consultation and Disclosure Plan that presents and describes the stakeholder disclosure and consultation procedures as part of the ESIA process. In sum, the plans are substantive. In relation to disclosure, the ESIA documentation was disseminated for public review and comment for a period of 60 days, including public meetings. (page 187)

Based on this information, management believes the IESC report adequately outlines how these issues are addressed, in line with EBRD requirements and good international practice.

In terms of “**compensation for local residents’ property damage arising from project-related accidents (gas pipeline explosion)**”, management note the that various ESIA’s (cited above) all discuss compensation for impacts caused by the project, and that these are reviewed in the IESC report. Management believe that these documents confirm that compensation has been adequate on these projects.

In terms of the gas pipeline explosion, management have no information about an explosion on the Sangachal Terminal. Management are aware that in December 2016 there was a fire on a gas pipeline nearby, however, management understand that this was not on the terminal and this accident was not associated with the project, rather this was a SOCAR pipeline.

In terms of **lack of necessary soil, air and water quality monitoring, inability to grow fruits and vegetables in the impacted villages due to potential contamination of the soil**, management note that each of the ESIA’s outlines the proposed monitoring. Results of monitoring can be found in many locations, including the following:

https://www.bp.com/content/dam/bp-country/en_az/pdf/overview-of-env-monitoring-programme/00-2010-12.BP-AGT-overview-env-monitoring-programme.pdf

https://www.bp.com/en_az/caspian/sustainability/environment/env-and-social-documentation/overview-env-monit-programme.html

https://www.bp.com/content/dam/bp-country/en_az/pdf/sustainability-reports/SR%20Eng%202016.pdf

https://www.bp.com/en_az/caspian/sustainability/ASRC.html

In addition to the above, an overview of the overall environmental monitoring program was completed in 2012 with the specific purpose of providing results of environmental monitoring to interested stakeholders. This report can be found at the link provided below

https://www.bp.com/content/dam/bp-country/en_az/pdf/overview-of-env-monitoring-programme/2006-09.%20BP-AGT-overview-env-monitoring-programme-onshore.pdf

Based on this information, Management are confident that there is no lack of information on environmental monitoring, nor is there any evidence that onsite operations have had an adverse impact on local soil or water quality.

Regarding the “**lack of adequate sewage systems, roads and job opportunities at the Shah Deniz expansion project**” Management note that the provision of community sewage systems and roads is an issue for local and national government, not the project. However, the project has maintained a long term social and community investment program and details of the program are presented in the annual reports and on the BP web site

https://www.bp.com/en_az/caspian/sustainability/Society/BP-sponsorship-prorammes.html

Details of the ongoing social investment initiative, and the call for submission of concept papers is presented on the BP Azerbaijan web site as follows:

https://www.bp.com/en_az/caspian/sustainability/Society/sendusyouridea.html

Based on the information presented above, Management believe that the Shah Deniz Project, as well as the other associated BP-led projects have all completed comprehensive ESIA's and conducted meaningful consultation through the life of the projects. Local communities have been and continue to be informed of project activities, and the methods for raising a grievance. Our review confirms that the existing grievance mechanism is satisfactory and that the Community Liaison Officers are effective. Given the extensive documentation available on the project, the extensive public consultation held, the existing grievance mechanism and the network of CLO's, the merits of a problem solving exercise seem hard to justify in this case.